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Review

Enhancing tax morale with marketing tactics: A review of literature

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There is a general consensus that developing economies need better infrastructure to foster economic growth and hence they need wider tax bases. The problem is how the tax base can be broadened. Traditionally, deterrence models have placed more emphasis on punitive choices to increase tax collections. However, these models have failed to yield desired results, especially in countries where governance mechanisms and legal frameworks are weak. In recent times, the attention has been diverted to the role of intrinsic motivation of taxpayers in increasing the tax base. In this paper, we discuss several marketing tactics that can be used to enhance tax morale. In doing so, we draw on existing theories and available empirical research in the domains of marketing and taxation.

Key words: Morale, tax, marketing, leader, project.

INTRODUCTION

Tax is one of the important sources of revenues for governments and plays a crucial role in the development of a country. Without efficient and effective taxation system, a government cannot easily undertake developmental projects and provide important services to their publics. Many developing economies face the problem of low-tax-to-GDP-ratio. Kaldor (1963) suggested more than half-a-century ago that developing economies must increase their tax collection ratios even above the tax collection ratios found in developed economies if they wish to join the developed countries club. Generally, there is a universal consensus on Koldor's argument; however, the problem is how this can be done. Developing economies face a unique set of problems which make the tax collection more complicated. Developing countries are generally characterized by higher incidence of corruption, lack of transparency, lack of documentation (Torgler and Schnieder, 2007), influential people, weak legal frameworks and poor judicial efficiency (Rodrik et al., 2002; La Port et al., 1999), low tax morale -the intrinsic motivation to pay taxes (Frey, 1997) and lack of political will to increase taxes (Bird et al., 2006).

The existence and methods of taxation are always 'contested concepts' (Sebates and Schneider, 2003) where some people pay more taxes, others pay less, and even some do not pay it at all. Similar is the story when it comes to receiving compensating advantages from taxation. It is considered the responsibility of political parties to develop a consensus through democratic processes on how much tax is justifiable. In this regard, those who are in power must also have public support and mandate. Still, the legitimacy and justification of taxes from payers' point of view will vary from person to person. People develop their unique versions of what is fair and what is not in light of their perceptions of reality. Some people believe that the tax system is based on the unrealistic grounds. Kiyosaki (2009) argues that the tax system around the world is unjust. He argues that the tax system around the world is in fact a penalty for producing more. The author further argues that the tax system should be revised and those who produce less should pay more taxes as opposed to those who produce more. There should be a penalty on those who are inefficient in production in the form of more taxes. Besides such views as held by Kiyosaki (2009), people may form different beliefs about taxation either because they do not have the truth, because they are not educated and no one

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knows the truth, or they have been misled about the truth (Bird et al., 2006). Unless such conflicts are resolved, raising tax levels may prove difficult or impossible in some cases. In this regard, Torgler and Schneider (2006) have rightly pointed out that:

> "… If citizens perceive that their interests (preferences) are properly represented in political institutions and they receive an adequate supply of public goods, their identification with the state increases, their willingness to contribute increases. On the other hand, in an inefficient state where corruption is rampant the citizens will have little trust in authority and thus a low incentive to cooperate. A more encompassing and legitimate state increases citizens' willingness to contribute (Torgler and Schneider, 2006: 5). "

We believe that the application of marketing principles can help overcome many negative perceptions surrounding taxation and motivate people to pay taxes. In this paper, we discuss how marketing tactics can be used to improve the image of the state; how reference group functions can be used to persuade people to pay tax; how advertising can be used in taxation; and several other areas. In doing so, we draw on existing theories and available empirical research in the domains of marketing and taxation. Towards the end of the paper, we also highlight potential areas for future research.

FACTORS AFFECTING TAX MORALE

Molero and Pujol (2011) argue that traditional models of tax evasions have primarily focused on economic factors and have ignored the wider perspective of including human behaviors. Since human behavior cannot be fully understood without taking into account the ethical aspects, the traditional models have not yielded satisfactory answers to the question why people evade taxes. Human behavior can be influenced by norms that can act as internal constraint (Buchanan, 1995). A person's attitude or behavior may determine a person's readiness to pay or evade taxes (Nerre, 2008). In this regard, tax morale is defined as "intrinsic motivation to pay taxes'' (Torgler and Werner 2005: 460). Thus, to understand why people pay or do not pay taxes, both economic and non-economic factors should be considered together (Molero and Pujol, 2011). Economic factors might include tax rates, penalty imposed, probability of being caught, etc.; and non-economic factors might include complaints, sense of duty and solidarity, personal and business ethics, altruism, country, etc. (Buchanan 1995; Gintis et al., 2003; Torgler and Werner, 2005; Alm and Torgler, 2006).

On the empirical front, limited number of studies exists that have looked into factors which might increase tax morale. Martinez-Vazquez and Torgler (2009) found through survey techniques that tax morale has deteriorated to some extent over the period 1981 to 2000. Molero and Pujol (2011) developed and tested a model of tax morale where they included factors that measured psychological costs of tax evasion. Using a binomial logit model, they found that the justification of tax evasion was correlated with the presence of grievance in absolute terms and grievances in relative terms. The grievances in absolutes terms were meant to measure the perception of people that taxes are too high, that public funds are wasted, and that underground economic activities exist. And the grievances in relative terms were aimed at knowing that the tax payers suspected that others are evading tax. Moreover, the authors found that the sense of duty and the level of solidarity were relevant too, but to a lesser extent.

MARKETING STRATIGIES TO INCREASE TAX LEVELS

Marketing is all about creating exchange and customer satisfaction (Kotler, 2004). The concept of four Ps[1] can be partially adopted in collection of taxes. In this case, the product is public services, and price of the service is the tax rate. The customer expects more when he pays higher price and less when he pays lower price (Kotler, 2000).

To widen the tax net, marketing approaches can be utilized that are common to private sector but not common to public sector. Alford (2002) suggested that collection of the taxes can be improved and may become efficient if the marketing and management practices of the private sectors are adopted by the public sector organizations. He further argued that although the tax collections will become efficient by adopting the marketing and management styles of the private sector, there would also be the need of some amendments.

Kahn et al. (2001) pointed out that in the case of developing economies, the tax collection and efficiency is a problem. The common problem in the tax collection in developing economies is corruption and corrupt tax collectors. To cover this hurdle, in Brazil, some tax reforms were introduced in 1989 including incentives in the shape of bonuses for the efficient tax collectors. Even if bonuses as a reward for efficient tax collection were low in monetary value as compared to bribes, they are more motivating as they are legal and contribute in the promotion and fame of the tax collectors.

Further, we discuss some of the marketing tactics/strategies which can help in increasing tax-to-GDP-ratio. These strategies assume that supply side determinants of tax (sufficient economic activities such as manufacturing, services, and foreign trade) are already there.

[1] Four Ps in marketing refer to product, price, place, and promotion.

Value for money

When a consumer pays a higher price for a certain product or service, he or she would naturally expect better quality in the product or service. Similarly, when people pay high taxes, in return they expect equivalent quality products and services. To market a product or service, the first important thing is that the product should deliver value for money. In the case of taxes, the product being delivered is government services. To market a tax system, the first important issue is to make the current and potential tax payers believe that the product (government services for tax money) has sufficient value for money (Bird et al., 2006). The tax payers should be confident that their tax money is utilized in their safety and welfare. This should not only be a fact, but also in the knowledge of the tax payers which is why governments should explicitly show to their public that their tax money is used in valuable public goods. Signboards such as 'tax money at work' in road constructions projects can convey a clear message to public that money so collected in taxes is being used in the taxpayers' welfare.

Improving the state's image

When tax payers think that their tax money is not used in utility maximizing ways by the state, they would consider it as a penalty and would be reluctant to contribute their due share. People will not be willing to pay taxes when they know that their money is squandered on undesirable projects or wasted in benefiting the corrupt government officials. Torgler and Schnieder (2007) argue that citizens feel cheated when they know that their hard-earned money is not spent well, corruption is rampant, their government does not have accountability, and that they are not protected. All these add to a justification to evade taxes. The pioneering work in this 'fairness argument' was done by Bordignon (1993), who presented a theoretical model on tax evasion. Later on, several other studies contributed to this area (Webley et al., 1991; Smith, 1992; Pommerehne et al., 1994; Kim, 2002; Riahi-Belkaoui, 2004). These studies argue that tax morale decreases with the grievances in absolute terms which might appear in various forms such as corruption, functioning of government departments in inefficient ways, or meaningless polices.

In this regard, it is essential that elected governments formulate and then propagate their agendas about combating corruption. Levi (1988) stated that governments can increase the possibility of creating or maintaining compliance by providing a reassurance to its citizens. Such pre-commitments with democratic rules impose restraints on the governments' own power and thus generate signals that taxpayers are equally considered as responsible citizens.

Inefficiencies and subsidies to poorly-managed government-run corporations have similar effects as the corruption. There is extensive evidence that post-privatization efficiency and the profitability of the public sector organization increased. When an organizational survival is on the stake and the reliance on government in not there, organizations work efficiently (Gomez-Ibanez et al., 1990). Again, if taxpayers view tax as sources of financing such inefficiencies and subsidies, they get enough justification for tax evasion. Privatizing such public entities will not only save the taxpayers money, but also boost the tax morale.

Recent evidence suggests that public trust and transparency can help in increasing tax levels. The existing evidence support the argument of Abraham Lincoln that one can fool all of the people for some time, and some of the people for all times, but not all the people for all times. For example, Lindert (2002) argue that democratic process usually bring forward those political parties that follow more prudent economic policies. Similarly, Cheilbub (1998) demonstrated that transparent and even newly emerged democracies were associated with higher level of taxes.

Internal marketing

To base tax system on marketing grounds, one of the first and important factors is internal marketing. There is a need to make important changes to make the organization customer oriented. Caruana (1999) argued that the objectives of public sector organization cannot be achieved until and unless serious attention is given to the internal or inbound marketing. The study was based on the public sector enterprises in Australia and concluded that the internal or inbound marketing is synonym with the effective and efficient human resource practices and important to achieve public sector organizational objectives. In a similar study, the importance of organizational transformation was recommended for maximum efficiency, but also concluded that the hurdles are difficult to ignore in the transformation process. The common hurdles are the resistance and morale of the human resources, political ambitions and the corporate culture issues (Atkinson, 2010).

For internal or inbound marketing to be efficient, the employee motivation is important. For proper internal marketing, the employees first need to own the organization. This needs motivation. For motivating the able people, proper compensation is one of the important factors. Where the employees are not rewarded according to their talent and implementable ideas they come up with, this results in low morale of the employees and low motivation in sharing ideas with organizations. Some studies are against rewarding employees through cash payments. Berglas (1996) argues that motivating employees through cash payments may motivate them but at the same time alienate them also from the team.

He also argues that organizations should try to encourage employees to own the organizations. The study recommends profit sharing rather than rewarding in cash as an incentive for the hard work. This will make the employees feel they work for organization rather than money alone.

Better services and respectful treatment

Taxpayers need to have a better customer service because they can be easily disgruntled given that they pay money for no immediate or on-hand considerations. Also, services firms are more exposed to complaints as compared to manufacturing businesses. Lewis and McCann (2004) studied the service failure in hotel industry and concluded that the services can be recovered through different strategies. He recommends that the services can be recovered through apology, empathy, correction, compensation, follow-up, acknowledgement, explanation, exceptional treatment, and managerial intervention. Same techniques can be properly implemented in the case of tax collections. Training is another effort for minimizing customer complaints and for making the organization more customers focused.

Maginini and Ford (2004) argue that unlike manufacturing where the product can be brought down to zero error, service is difficult to handle and one may expect more complaints. He further argues that as in services, one deals with diverse type of customers; LEARN approach may be adopted to reduce the customer complaints. LEARN stands for listen, emphasize, apologize, react, and notify.

Current management and marketing practices are easy to adopt in the private sector, as compared to public sector. To make the public sector more customer oriented, efficient public sector organizations adopt the concepts of total quality management (TQM), and new public management (NPM).

When both concepts of TQM and NPM are applied to public sector organization, the performance of organization is enhanced (Barker and Kandampully, 2007).

Similar to better customer services is the case of giving a chance to taxpayers to vote on tax issues and treating the taxpayers well. Voting rights and better treatment gives a sense to taxpayers of how their views and money are valued by the authorities. Empirical evidence reported in Alm et al. (1999), Feld and Tyran (2002) and Torgler and Schaltegger (2005) indicate that giving a chances to vote on issues related to tax increase the likelihood of compliance and boosting tax morale.

OPINION LEADERS ROLE

Besides organization's internal amendment, motivating potential taxpayers through opinion leaders may influence the tax collections positively. Lessing and Park (1978) identified three groups of opinion leaders: informational, utilitarian, and value-expressive reference groups. They showed that these group functions influence decisions of buyers in three different ways. These group functions can be used for raising tax collections and are further discussed.

Informational reference group function

Informational reference groups influence decisions of buyers who lack information or are indecisive about the purchase decisions. If an individual considers someone to have more knowledge about a product, he or she will more readily accept information as evidence of reality from that informational reference group. Moran et al. (1990) studied the impact of Surgeon General's Report about the AIDS and found that the sale of condoms rose by 116% in response to the report. The study also concluded that the publicity from a trusted source is more effective and believable.

In the taxation context, authorities can make use of informational reference group function by involving highly respected finance and economics experts in TV commercials, talk shows, and newspapers articles to discuss and highlight the importance of tax in development of a country.

Utilitarian reference group function

Lessing and Park (1978) argue that utilitarian reference group function can be explained with Kelman's (1961) compliance process where an individual associates reward or punishment of his actions with the expectations of other people. The individual sees rewards or punishments for his actions in the form of opinions expressed over his actions by others. The marketing applications of this function in taxation can be in two forms: reward and punishment in the form of publicizing the names of those who pay taxes and those who do not. Negative publicity can also trigger a fear factor which is discussed after the reference group function.

Value-expressive reference group function

Lessing and Park (1978) define value-expressive reference group function with the help of Kelman's (1961) identification process. In this group function, individuals associate themselves with a group of persons who have values or attributes which are deemed highly desirable by the aspiring individuals. The individuals can express themselves to outside world or augment their egos and social status by doing what the group members do or what the group members suggest. For marketing tax, authorities can use the concept of value-expressive reference group function. For example, authorities can publicize the tax amounts and regularity in tax payments of famous TV stars, movie starts, athletes, scientists, politicians, and business tycoons. In 2010, the highest tax payer in India was film star Akshay Kumar. The central board of revenue used to influence others through advertising, mentioning Akshay Kumar as a role model for fulfilling his duties as a law abiding citizen.

The role and influence of opinion leaders depends upon different factors. Chaney (2001) studied the role of opinion leaders in wine industry and found that the influence of opinion leader depends on the technical knowledge, and the opinion leaders who influence people are heavy wine consumers. Keeping this study in view, it can be concluded that in taxation, heavy tax payers can be used to influence other tax payers to expand the tax base.

OTHER FACTORS

The fear factor

To motivate potential tax payers to pay taxes through advertising, fear is another effective appeal. Respecting those who pay taxes and imposing heavy fines on those who do not is essentially the strategy of using both carrot and stick approach. Feld and Frey (2002) noted that Switzerland treat taxpayers more respectfully. Authorities are often less suspicious even when taxpayers report low income, but impose heavy fines on those who do not submit tax declarations. Feld and Frey report that this policy has yielded encouraging results in Switzerland. But the fear appeal should be used carefully in advertising to market the tax system. Tanner et al. (1991) argues that fear appeal in advertising should be used at optimal level, or should be balanced. Effective use of fear appeal is reducing the fear, without reducing the danger. He further argues that four dimensions should be considered in creating fear appeals in advertising: severity of threat, probability of occurrence, coping response efficacy, and self efficacy.

All motivational techniques should be backed by some sort of penalty, in the public sector organization. Williams et al. (1987) studied the impact of publicity by the police department for enforcing the use of seat belts and concluded that when only appeals are used to enforce the seat belts, the results were not very promising as compared to when the publicity was backed by warnings. The impact was highest when the publicity was backed by fines. Therefore, as public sector has an authority to penalize, the use of publicity is high when it is backed by fines and punishments. In Pakistan, especially Punjab, government aggressively threatens non tax payers to pay property and vehicle taxes through advertising. The government use to threat people that their property and vehicles would be auctioned if they fail to pay taxes in time.

Advertising can form a positive attitude to encourage consumers to pay taxes. Cotte et al. (2005) found that among different subjects on which advertising is based, advertising created around the guilt appeal are found to form a positive attitude towards the product or service. If consumers feel guilty for not being a part of development of their countries, the positive attitude towards paying taxes can be formed.

The role of education

Marketing is a concept. To make it productive and result oriented, there is a need of cooperation from other departments and sectors of the organization. Integration of marketing activities with other departments is extremely important. Marketing practices and strategies cannot work in isolation. Health literacy cannot be increased without involving the hospitals and other related organizations to cooperate. There is a need of integration in communication, education, and negotiation (with patients) to increase the health literacy (Ratzan, 2001). In related case of tax collections, if it is integrated with the media, and education, better results can be obtained as found in increasing health literacy. As in the case of involving hospitals to increase health literacy, another study recommends the importance of education and law in combination with marketing. Rothschild (1999) argues that education alone can increase the awareness but cannot bring in the behavioral change until and unless there is a reward or benefit of exchange through marketing activities. He further argues that education and marketing also cannot deliver without the involvement of law. Therefore, education should be used to educate the public about the public policy, marketing should be used for reward, benefit, and exchange and law should be used to implement the public policy. Another very interesting logic in the study is to consider the community. If the community is not strong enough and if the marketing cost is too high, then law should have to play its role vigorously. Tax collection should be based on the same three important grounds: education, marketing and law. Education should be used to make the people aware about the benefits of the tax paying, marketing techniques should be used to create some valuable exchanges for the tax payers and law should have to play its role in implementing the public policy related to tax paying.

To communicate the benefits of taxpaying, advertising is the easy and controlled method. The benefit of the tax collection department in most of the developing countries in that it is cheaper than the advertising of the private sector. Advertising effectiveness is question in point. Advertising to increase the tax net is different as compared to other commercial product advertising. Tanner et al. (1991) recommend that advertising has to be divided into two phases in order to broaden tax base: the planning phase and the execution phase. He further states that the planning phase should include the consideration of product, market, strategy, and appeal. And the execution phase should include message, graphics and media. To make advertising more effective to widen the tax net, the use of reference group can also be very effective. Tax incentive can influence others. When people see others who benefited through tax paying can be used in advertising to motivate other potential tax payers. There are three types of reference groups that can be used in advertising to widen the tax net. Informational reference group: when people refer for information from opinion leaders, utilitarian reference group: when people are motivated through observing others who are rewarded or punished, and value expressive reference group: when people are motivated through associating themselves with positive and disassociate themselves with negative referents (Lessig and Park, 1978).

Advertising

Advertising for increasing the tax net is different as compared to other commercial product advertising, as in this case the product is idea. For social issue, advertising different types of markets has to be approached differently. There are different types of tax payers like businessmen, land and property owners, salaried class and manufacturers. In a related study of marketing of idea for increasing the awareness of road safety among small and young children, different markets are approached differently. In an experiment, the children of age 5 to 7 were approached through work books and activities, children of age 7 to 9 are reached through educating them, and children of age 14 to 18 were educated through multimedia presentation. The results were positive attitude towards road safety (Gomez-ibanez and Meyer, 1990). Advertising can help in widening the tax net, if properly executed. If the opinion leaders are properly used to educate people about the benefits of tax paying and about the duties as law abiding citizens, the advertising may help tax collections. Motivating people through fear may also make the tax collection easy and practical.

For advertising to be effective and manageable, there should be consistency in the product and its related services. There are three reasons that make the US federal tax policy an extreme marketing challenge. First, people believe that cheating in tax is fair, secondly, tax policy is under continuous change and in the most developed economy like USA, there were 1,151 changes in the statutes of tax regulations in the period of five years (1998 to 2002). These changes make the advertising and communication policy very difficult and challenging. Thirdly, convincing people towards taxes are far more difficult as compared to other public services advertising like wearing seat belts and anti-littering campaigns (Nicosia, 2003). The study also points out the problem that there is no any budget allocated for the promotion of the tax paying and the benefits associated with it. The study also pinpointed the report in the New York Times, quoted the expert that people rarely understands the public messages like the nutritional information issued by the government.

Media

Advertising also cannot deliver and achieve its objective without proper media plan. The consideration of new and emerging media is very important to consider in media plan of the tax system. Though consumers still trust traditional media like TV, telemarketing, and door to door selling, new emerging media like e-mails and SMS messages are also important and should not be ignored. The advertising may be creative, but if it is not run and placed in proper media, the message will not reach to the audience. Media selection is based on the demographics. Different types of tax payers have different media habits. To reach industrialist with the advertising message of paying taxes, the media will be different as compared to reach the salaried class.

Beside media selection and selection of media based on its reach and frequency context, proper media relation plays a vital role for organizational success. Khodarahmi (2009) argues that media relation and public relations are still used interchangeably. He recommends that if organizations establish proper relations with the journalists and reporters, it would help in projecting the positive image of the organization.

CONCLUSION AND FUTURE RESEARCH DIRECTIONS

There is a general consensus that developing economies need better infrastructure to foster economic growth and hence wider taxation base is crucial. The problem is how the tax base can be broadened. Traditional models have focused more on punitive choices to increase tax collections. However, these deterrence models have performed poorly, especially in countries where corruptions are rampant and legal frameworks are weak. Resultantly, in recent times, more emphasis is placed on increasing the intrinsic motivation to pay taxes (tax morale). Theoretical and empirical research show that factors such as transparency, participative approach where taxpayers are given a chance to vote in tax issues, empathy and consideration, respectful treatment, advertising in the form of reference group functions, and education can play significant roles in increasing tax morale.

While application of marketing principles to taxation seems pretty encouraging, still this area remains relatively unexplored. Scholars still have to bridge the intellectual gap that exists in the domains of private and public sector organizations (Alfor, 1984). A large number of scholars think that marketing approaches are different in public sector organization as compared to private sector organization. Even marketing approaches may vary within public enterprises[2]. In this regard, taxation is no exception. Future research may pinpoint the details that need to be incorporated while designing a specific marketing plan for taxation department.

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[2] Lain (2003) argues the public sector like transportation and criminal justice are unique. Both have different sort of objectives to achieve, and need different management and marketing approaches to achieve their unique objectives. He further recommends that first there is a need to group different public sector organization and then try to find the appropriate management and marketing approaches to achieve its objectives.